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COVER NOTE

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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	SWD(2021) 604 final
Subject:	COMMISSION STAFF WORKING DOCUMENT EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT Accompanying the document Proposal for a DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Directive 2003/87/EC for increasing aviation's contribution to the Union's economy-wide emission reduction target and appropriately implementing a global market-based measure

Delegations will find attached document SWD(2021) 604 final.

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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the document

Proposal for a
DIRECTIVE OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Directive 2003/87/EC for increasing aviation's contribution to the Union's economy-wide emission reduction target and appropriately implementing a global market-based measure

{COM(2021) 552 final} - {SEC(2021) 552 final} - {SWD(2021) 555 final} - {SWD(2021) 603 final}

Executive Summary Sheet

Impact assessment on Revision of the EU Emissions Trading System in respect of aviation

A. Need for action

What is the problem and why is it a problem at EU level?

There are three problems addressed by this initiative. First, in accordance with the Green Deal, it must be ensured that aviation contributes to the new 2030 GHG emission reduction target and to the 2050 climate neutrality objective. Secondly, the EU ETS should be amended in respect of the ICAO's Carbon Offset and Reduction Scheme for International Aviation ('CORSIA') as appropriate, consistent with the EU's economy-wide greenhouse gas reduction commitment for 2030. Finally, allocation of emission allowances in respect of aviation should be reduced in order to increase effectiveness of the carbon price signal and remove market distortions.

What should be achieved?

The objective is to revise the ETS in respect of aviation in a cost-effective and coherent way in line with the increased climate target, while taking into account the need for a just transition and the need for all sectors to contribute to the EU climate efforts.

What is the value added of action at the EU level (subsidiarity)?

Climate change is a transboundary problem. As a carbon market, the EU ETS incentivises emission reductions by the most cost-efficient solutions first, across the activities and countries it covers, achieving greater efficiency by virtue of its scale. Implementing a similar measure nationally would result in smaller, fragmented carbon markets, risking distortions of competition and likely lead to higher overall abatement costs. Aviation being mainly between countries, supranational action is more efficient to tackle aviation emissions while ensuring equal treatment through Union law.

B. Solutions

What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?

A key element is the strengthening of the existing ETS to increase its ambition in line with the net at least -55% 2030 target and ensuring that aviation contributes to achieving this target. The options for implementing CORSIA as appropriate differ in the extent the existing EU ETS coverage is maintained, reduced or extended. The preferred option (C3CLEAN) is to maintain the current EU ETS coverage (intra-EEA flights, including departing flights to Switzerland and to the UK) and to apply CORSIA offsetting approaches for flights that are currently not covered by the EU ETS (flights to/from other third countries which participate in the scheme), while offsetting units should come from countries in the Paris Agreement, which implement CORSIA, and double-counting should be excluded. This option combines the continuation of an effective and demonstrated European policy instrument incentivising emission reductions while providing a constructive international signal that the EU wants the CORSIA emission scheme to succeed and deliver meaningful emission reductions. The options for increasing the auction

share in allocating aviation allowances differ in the pace of increase. The preferred option is immediate full auctioning from the entry into force of the amendment.

What are different stakeholders' views? Who supports which option?

In the public consultation, 91% of respondents agree that the aviation sector should contribute more to climate actions. 88% of respondents believe that market-based measures can be effective to tackle aviation emissions in line with the climate objectives. 82% of respondents to the public consultation agreed that market-based measures be combined with other policies such as support for innovative aviation technologies, operational improvements, taxation, and the production and use of sustainable aviation fuels. Stakeholders had mixed views about CORSIA implementation options. For increasing the auctioning share, stakeholders preferred most immediate phase out, while they held maintaining the status quo as the least preferred option. Large majority of the stakeholders considered that the increase of auction share would increase the cost of flying, while the majority also agreed that this measure would contribute to climate change mitigation.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise of main ones)?

Price incentives are essential to incentivize emission reductions and implement the 'polluter pays' principle. The incentives under the EU ETS have a positive track record in doing so and are orders of magnitude higher than the incentive from CORSIA offsets. Accordingly, the preferred option contributes better to the EU's emission reduction target, while also keeping the emission reduction domestic.

What are the costs of the preferred option (if any, otherwise of main ones)?

The increase of the auctioning share will increase the carbon cost for airlines. As the cost pass through ability in aviation is relatively high, this will result in increased ticket prices. The increase is assessed to have minimal impact to consumer.

What are the impacts on SMEs and competitiveness?

Competitive distortions would arise when policies do not apply equally on routes, and where they are not enforced equally. Enforcement has been crucial for the success of the EU ETS to date. The preferred option applies the EU ETS uniformly to all airlines flying the same route, and so does not create direct distortions. There is a risk that airlines that have a higher proportion of flights on high carbon cost routes are more impacted than airlines flying on lower carbon cost routes. However, this impact is assessed as minimal for industry.

SMEs are not significantly impacted by the preferred option chosen.

Will there be significant impacts on national budgets and administrations?

Under the existing ETS, most of the auctioning revenues accrue to Member States, hence there are positive impacts on national budgets. The preferred options contribute most to the generation of revenues within the EU. The extent to which this is the case for additional revenues stemming from increased auctioning depends on the extent of use of revenues for EU own resources.

For the existing coverage of the EU ETS, there are no additional administrative impacts on national administrations. The impacts of the implementation of CORSIA could be limited by using the same infrastructures.
Will there be other significant impacts?
The preferred option will maintain both domestic ambition while providing a constructive international signal that the EU wants the global emission scheme to succeed and deliver meaningful emission reductions. This is consistent with its high climate ambition and support for multilateral climate action through both the Paris Agreement and other UN organisations. For CORSIA to work and to be effective, all strategic partners need to be on board and undertake domestic implementation. The EU will continue to support efforts, multilaterally in ICAO and bilaterally with strategic partners, to incentivise participation and domestic implementation, as well aim for CORSIA to deliver at least on its initial ambition level and be further strengthened, avoiding any backsliding at the occasion of the first review planned for 2022.
Proportionality?
The main policy options are proportional to what is necessary to achieve the at least -55% emission reduction objective. They do so in a way that is as cost-efficient as possible.
D. Follow up
When will the policy be reviewed?
As currently the case, a regular review will be foreseen in the ETS Directive.